The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, APRIL 13, 1981 VOLUME XVIII, NUMBER 15

Consumer Spending Remains Strong . . .

Those who think the economy has slipped into another recession probably underestimate the strength of the consumer sector. It has become apparent that consumers think things will be getting better, hence they seem to be more willing to spend. Consumer spending, which accounts for about two-thirds of the GNP, has shown a remarkable resiliency so far in 1981. To some degree, strong retail sales for January and February were boosted by good weather. Similarly, substantial automobile price rebates offered by U.S. manufacturers raised car sales to the highest levels since the fall of 1979. But these factors alone do not account for the relatively buoyant pace of economic activity.

Consumer spending remained strong in March and there is every reason to believe that it will continue to do so in the near future. Consumers remain confident, as evidenced by their willingness to borrow. Total outstanding debt in February, 1981 expanded by the largest amount since February, 1980—the month immediately prior to the imposition of credit controls. Specifically, consumer credit outstanding in February expanded by a seasonally adjusted $2 billion from the previous month compared with an $869 million gain in January. Almost one-half of this rise came from increased automobile credit, which paralleled a strong increase in automobile sales fueled by generous manufacturer rebates.

New domestic car sales rose from a 6.4 million unit annual rate in December to 7 million units in January and 7.5 million units in February. The subsequent removal of some incentive programs in late March caused a drop in sales. These slumped to a 5.1 million unit annual rate during the last ten-day selling period, keeping the average to a 7.6 million unit pace for the month. However, since March sales still exceeded February's, further increases in automobile credit extensions may be expected.

. . . Bolstered By Brightening Attitudes

Meanwhile, credit has once again emerged as an important prop under retail sales. In February, 1980, 35 per cent of retail purchases were made with the use of credit. This ratio slowed to less than 29 per cent by midyear, in the wake of the Federal Reserve's credit controls, but reaccelerated again to 33 per cent this February. However, consumer liquidity has improved slightly since then, as people are now using 16.5 per cent of their disposable income to repay outstanding installment debt compared with 17.1 per cent a year ago.

Despite the sharp dip in new car sales at the end of March, surveys show that consumers intend to step up their purchases of large durables. The Consumer Confidence Index as reported by the Conference Board jumped more than ten points in March as consumer optimism over future business and employment prospects increased. Importantly, the Board's Buying Plans Index rose sharply. The survey showed car buying plans hitting the highest level in a year; 7.9 per cent of those responding intended to buy a new or used car, up from 7.3 per cent in February. Within the next six months, 2.9 per cent intend to buy a new home, up from 2.6 per cent in January. Major appliances were on the list of 25.3 per cent of the families, compared with 24.3 per cent in the previous month.

Purchasing activity, measured by a survey of the National Association of Purchasing Management, also points to strength in the near-term outlook for the economy. Almost one-third of respondents reported higher production levels in March compared with only 21 per cent in February. According to the survey, inventories fell while higher incoming orders were reported. Not surprisingly, the average workweek in manufacturing increased by 0.4 hours in March, a sharp contrast to February's decline of 0.3 hours.

Light At The End Of The Tunnel?

Meanwhile, there is a new mood of optimism in the business community about the future of the British economy. Business leaders who have spent the last two years and more struggling to bring inventories and employment levels into line with a very restrictive monetary policy now report increasing confidence that a turnaround is coming soon. The severe restraints on businesses and economic growth which were imposed by Mrs. Thatcher's Government have already slowed inflation, and the structural adjustments which were necessary to return businesses to

Copyright 1981
Manufacturers Hanover Trust Company
350 Park Avenue, New York, NY 10022

a competitive stance in domestic and export markets have for the most part been completed. As a result, British businessmen feel that their prospects for profitability have brightened, and this in turn is reflected in plans for increased investment in modernizing the industrial sector. Interestingly, this growing optimism has developed in spite of the gloomy assessments of 364 academic economists who signed a manifesto last week condemning the economic policies of the Thatcher Government. Such unanimity among economists, particularly from the academic side of the profession, is unusual—not to say unique.

Certainly the statistics are mixed and much of the evidence is subjective and circumstantial. New home construction is increasing but from a very low base. Inventory reduction is continuing—albeit at a slower pace; normal levels at both the wholesale and the retail level have just been reached. Productivity has not fallen of late, and there is evidence of rising consumer demand and an increase in new orders flowing to industry. None of these trends is exceptionally strong, but in the absence of firm quantitative evidence of recovery, subjective indicators such as business expectations of improved sales and profits are encouraging.

There is no disputing the fact that the rate of inflation is slowing. The inflation rate in February

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 4/1/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	127.299	– .161	+ 1.537
Loans to Depository Inst.	1.464	+ .576	– .802
Float	2.549	– .287	– 1.175
Total Reserve Bank Credit	141.758	+ .313	+ 4.814
Treasury Deposits with Federal Reserve Banks	2.887	– .355	+ .676
Currency Outside Banks	120.177	– .096	+ 8.085
Member Bank Reserves:			
Required	39.642	+ .178	– 3.914
Excess (Deficiency)	.670	+ .510	+ .383
Total Reserves Held	40.312	+ .688	– 3.531
Net Borrowed Reserves	.574	+ .046	– 1.240
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	100.720	+ 2.411	+25.185

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M-1A	365.1	– 20.4‡	– 2.2‡
M-1B	423.8	+ 10.3‡	+ 7.8‡
M-2 (February '81)	1,692.2	+ 5.1	+ 9.3
L (December '80)	2,372.0	+ 11.9	+ 10.2

† Seasonally adjusted. * Seasonally adjusted annual rate. ‡ Four-week moving average.

New York Money Market

Offering Rates 4/10/81	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	13.55%	13.30%	12.50%
* Federal Agencies	13.55	13.55	13.95
* Project Notes—Taxfree (46% Taxable Equivalent)	11.29	13.33	12.96
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	14.25	14.25	

‡ Finance Company Paper—Prime

5- 29 days	14.63%
30- 89 days	14.00
90-270 days	13.00

‡* Bankers' Acceptances

May	14.70%
Jun.	14.60
Jul.	14.55
Aug.	14.50
Sep.	14.20
Oct.	14.00

‡ Industrial Paper—Prime

30- 89 days	14.75%
90-120 days	14.75

† Federal Funds Effective Rate 15.60%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'80	$ 2,731	$ 2,637	$ 2,496
Gross National Product (1972 Dollars)*	4th Q'80	$ 1,486	$ 1,472	$ 1,491
Percent Change, Annual Rate	4th Q'80	3.8%	2.4%	0.6%
Change in Consumer Prices (all urban consumers)*	Mar '81	12.0%	8.4%	15.6%
Change in Producer Prices*	Mar '81	15.6%	9.6%	13.2%
Civilian Employment (Thousands of Persons)†	Mar '81	98,412	97,927	97,628
Unemployment as % of Civilian Labor Force†	Mar '81	7.3%	7.3%	6.3%
Personal Income*	Feb '81	$ 2,314	$ 2,299	$ 2,086
Leading Indicators Composite Index (1967=100)†	Feb '81	136.3	136.7	134.1
Industrial Production Index (1967=100)†	Feb '81	150.8	151.5	152.6
Net Change in Consumer Installment Credit†	Feb '81n	$ 2.00	$ 0.87	$ 2.40
U.S. Merchandise Trade Balance†	Feb '81	–$ 2.16	–$ 4.37	–$ 4.79
Plant and Equipment Expenditures*	2nd Q'81	$317.29(a)	$310.59(a)	$294.36
Private Housing Starts (Thousands of Units)*	Feb '81	1,218	1,615	1,273
New Construction Expenditures*	Feb '81	$ 252.5	$ 261.9	$ 248.8
Total Business Inventories†	Jan '81	$ 461.8	$ 456.8	$ 431.4
Total Business Sales†	Jan '81	$ 338.7	$ 332.5	$ 312.5

* Seasonally adjusted annual rate. † Seasonally adjusted. n Newly reported figure. a Anticipated.

was 12.5 per cent compared with a 15 per cent annual rate last December. One year ago British inflation was running at a 22 per cent annual rate. No doubt this improvement is a major factor in the brightening of business attitudes.

Problems With Weekly Money Statistics

The recent volatility of the weekly money supply statistics and subsequent interest rate gyrations has again raised doubts as to the usefulness of releasing money supply data with such frequency. These statistics, juxtaposed with quarterly and annual target ranges, have caused people to pay an undue amount of attention to the weekly data which are, by and large, statistically unsound. Any weekly number tends to be mostly influenced by random events and contains a lot of statistical noise, and the money supply is no exception.

What is more, the significance of the weekly statistics, and perhaps the narrowly-defined monetary aggregates themselves, has been called into question by the massive interdeposit shifts now underway as a result of the nationwide introduction of NOW accounts and the surging popularity of money market funds. During the 13 weeks ending March 25, for example, M-1A contracted at a 22 per cent seasonally-adjusted annual rate while M-1B expanded at a 7.6 per cent annual rate. But rather than indicating underlying trends in the transactions

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (3/25/81)	112,612	– 840	+18,003
New York City (3/25/81)	27,888	+ 307	+ 7,179
Commercial Paper (3/25/81)	132,552	– 1,658	+12,991

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

	Latest Week	Change Since Week Ago	Change Since Year Ago
Weekly Reporting Large Commercial Banks			
Nationwide (3/25/81)	169,645	+ 55	+ 8,273
New York City (3/25/81)	49,667	– 7	+ 2,782

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/25/81)	422,397	– 1,005	+23,592
New York City (3/25/81)	98,569	– 968	+ 9,834

Financial Markets

	Friday 4/10/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	13.90%	+ 1.02	– 1.30
180-Day Bills†	13.70	+ 1.24	– 1.80
Longest Bills	12.80	+ .76	– 2.10
Recent Issues:			
12⅝s 3/31/83	13.94	+ .38	
12⅜s 3/31/85	14.02	+ .42	
13s 11/15/90	14.25	+ .85	
12¾s 11/15/10	14.15	+ 1.23	
Municipals:			
Bond Buyer–20 Bond Index* (4/9/81)	10.45%	+ .24	+ 1.38
Blue List Total ($ Million)	$ 830	– $ 92	+ $ 474
30-Day Visible Supply ($ Million)	$2,611	– $133	+ $1,083
Total	$3,441	– $225	+ $1,657
Corporates:			
Moody's Aa Composite (4/9/81)	14.29%	+ .42	+ .79
Money Mgr.–30-Day Supply ($ Million)	$5,032	$323	+ 3,627
Stocks:			
Dow-Jones Averages:			
Industrials	1,000.27	– 6.84	+ 208.72
Transportation	446.29	+ 7.58	+ 195.61
Utilities	107.53	– 1.93	+ 1.10
65 Stocks	391.97	– .07	+ 103.39
Standard and Poor's 500 Stocks	134.51	– .98	+ 30.72
N.Y.S.E. Composite Index	77.77	– .37	+ 18.77
N.Y.S.E. Avg. Daily Vol. for Week (000's)	50,782	+ 2,594	+ 19,176

* 46% Taxable equivalent 19.35%.

† Bond equivalent.

International Rates

	Friday 4/10/81	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	15.50%	14.63%
1 month	15.75	14.63
3 month	15.88	14.75
6 month	15.88	14.50
1 year	15.25	14.50
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	13.80%	13.70%
Long Term (7 to 15 yrs.)	13.90	13.90

FOREIGN EXCHANGE SPOT RATES

New York Opening (4/10/81)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02843	35.17
Canada	.8448	1.1837
Denmark	.1481	6.7525
France	.1974	5.0650
Germany	.4657	2.1475
Italy	.0009354	1069.00
Japan	.004664	214.40
Mexico	.04205	23.78
Netherlands	.4206	2.3775
Switzerland	.5109	1.9572
U.K.	2.1870	.4572

demand for credit or the overall pace of economic activity, the primary factor accounting for the rise in M-1B has been a more than $30 billion surge in other checkable deposits outstanding (primarily NOW accounts).

Yet, this has not deterred the markets from plotting the weekly levels of the money supply, comparing the results with the Fed's target ranges and then passing superficial judgments as to the seeming success or failure of monetary policy in promoting non-inflationary, "real" economic growth. These ongoing efforts to anticipate the central bank's operating tactics have clearly contributed to heightened financial market and interest rate instability. Dispensing with the weekly money supply release, as the Fed is now considering, would go a long way toward discouraging such behavior. ■

Manufacturers Hanover Geobankers in Guangzhou (Canton)

Customers and friends are welcome to consult Mantrust officers in Suite 348, Dong Fang Hotel (Old Wing), during the 49th Chinese Export Commodities Fair, April 15 through May 15, 1981.

Pioneering Geobankers will serve you again in Canton. For discreet, professional and experienced advice on financing your piece of the China trade action, from straight trade and processing contracts through compensation trade arrangements, cooperative manufacturing and joint venture arrangements, the Geobankers are there to benefit you.

In Hong Kong:
Alexandra House, 27th floor
Hong Kong
Tel: (5) 253101
Telex: 73951 HX

James W. Sweitzer
Vice President and Manager

Johnson C. Fu
Assistant Vice President

Edward Lau
Assistant Secretary

Paul Au
Assistant Secretary

In New York:
350 Park Avenue
New York, New York 10022
Tel: (212) 350-3201/350-6924
Telex: 232337

John J. Simone
Senior Vice President

Richard V. Johnson
Vice President

Robert V. Sheffield
Assistant Vice President

Olga K. Hansen-Sturm
Assistant Secretary

MANUFACTURERS HANOVER
The banking source. Worldwide.